"The region in 2004 achieved the largest number of building permits issued but with record home prices and the lowest level of affordability since 1989."

HOUSING

Housing Construction

Why is this important?

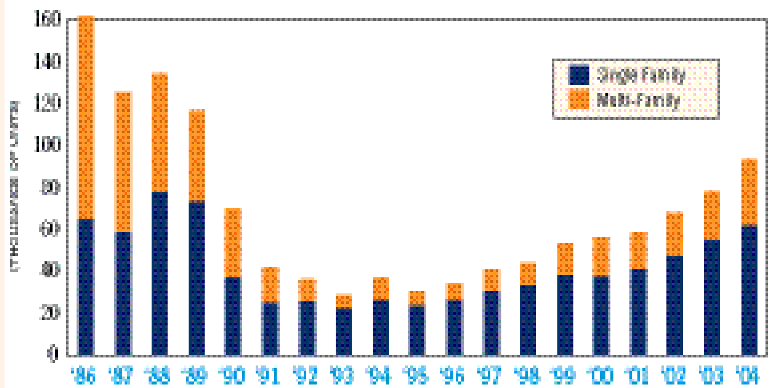
The magnitude of housing construction, population growth, and new households is a major determinant of housing prices. Different geographical distributions of new housing result in different needs for support infrastructure and services. The residential construction industry is also an important source of employment and corporate profit in the region.

How are we doing?

In 2004, the region experienced the largest number of residential building permits issued (93,200 units) as well as the largest increase (15,000 units or 19 percent) in a one-year period since 1989 (Figure 31). *Notably, the number of permits for multi-family units increased by 33 percent in one year.* Between 1995 and 2001, the number of permits issued rose steadily, and since 2001 the rate of increase has accelerated. Total number of permits issued in 2004 more than doubled that in 1998.

Figure 31

Residential Building Permit Activity



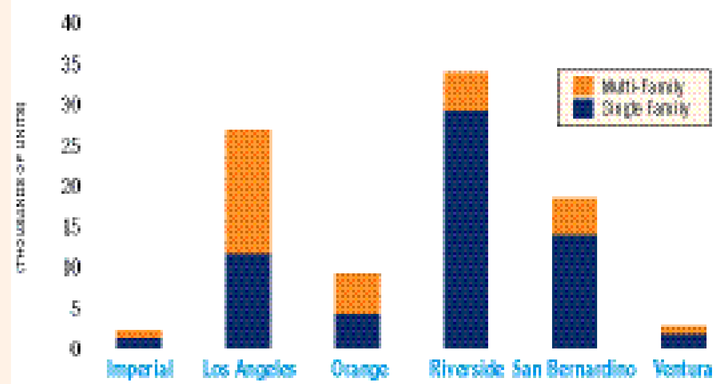
Source: Construction Industry Research Board

Within the region, the Inland Empire counties accounted for about 56 percent of the total permits issued in 2004. In particular, Riverside County led among the six counties in the total number of permits issued (33,900), more than a third of the regional total, followed by Los Angeles County (26,800). However, San Bernardino led in the increase of permits issued (both the rate and the absolute number), up 42 percent from 2003. Between 2003 and 2004, the number of building permits in Los Angeles County increased by 26 percent, followed by Riverside County at 12 percent. In contrast, both Orange and Ventura counties experienced a decline in their number of building permits. In Orange County, the permit tally dropped in two consecutive years to about 9,000 in 2004, the lowest since 1995.

Among the total permits issued in 2004, about 33 percent were for multi-family housing, an increase from about 30 percent over the past four years. *However, within the region, there continued to be significant differences between the coastal and inland counties with respect to the share of multi-family housing permits.* Specifically, over half of the permits issued in Los Angeles County (56 percent) and Orange County (53 percent) were for multi-family housing (Figure 32). In Ventura County, the share of multi-family housing permits was 33 percent, a significant increase from the 14 percent share just two years ago. In the remaining three inland counties, over 80 percent of the total permits were for single-family housing construction. The share of multi-family permits in San Bernardino County, however, increased from 14 percent in 2003 to 23 percent in 2004.

Figure 32

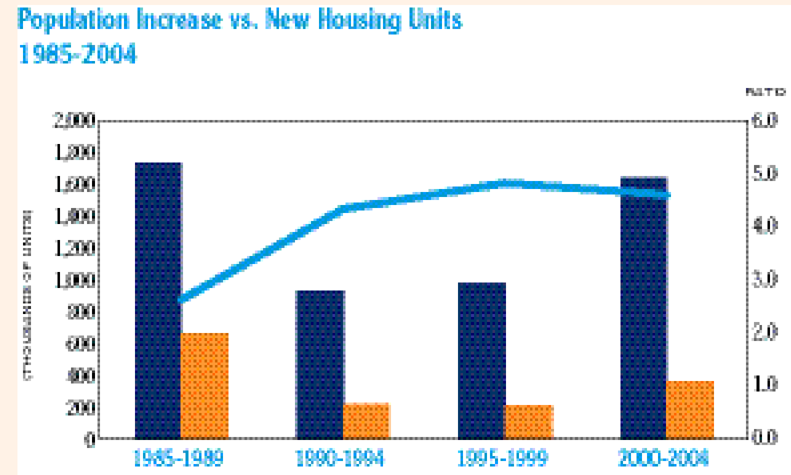
Residential Building Permits by Housing Types, 2004



Source: Construction Industry Research Board

Despite the continuous increase of permit activities in the past five years, housing construction continued to lag behind housing demand generated from population growth. For example, total numbers of building permits issued during the period from 2000 to 2004 were over 350,000 housing units, a 75 percent increase from about 200,000 units in the previous 5-year period. However, population in the region increased by more than 1.6 million between 2000 and 2004 compared to only 980,000 between 1995 and 1999, a rise of 67 percent (Figure 33). Hence, in spite of the significant increase in building permits in recent years, the ratio between population growth and new housing units with permits declined only slightly from 4.8 persons per unit (during the period between 1995 and 1999) to 4.6 persons per unit (during the period between 2000 and 2004), that was still significantly higher than the average household size of 3.1 persons per unit.

Figure 33

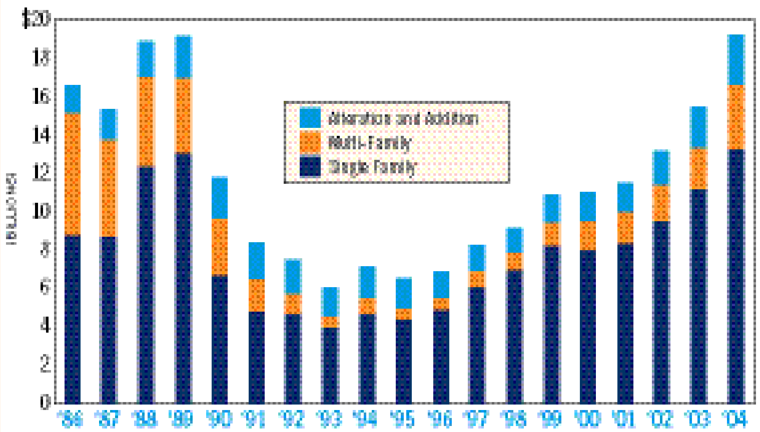


Source: California Department of Finance, Construction Industry Research Board.

Total valuation of permits in 2004 reached over $19.3 billion, with the largest annual increase of $3.8 billion (or 25 percent) since 1987 (Figure 34). Between 2001 and 2004, total valuation of permits increased by $7.7 billion. *While the housing construction industry in the region almost collapsed during the recession in the early 1990s, it has been serving as an important stabilizing force for the regional economy since the 2001 recession.*

Figure 34

Valuation of Residential Building Permits



Source: Construction Industry Research Board

Homeownership

Why is this important?

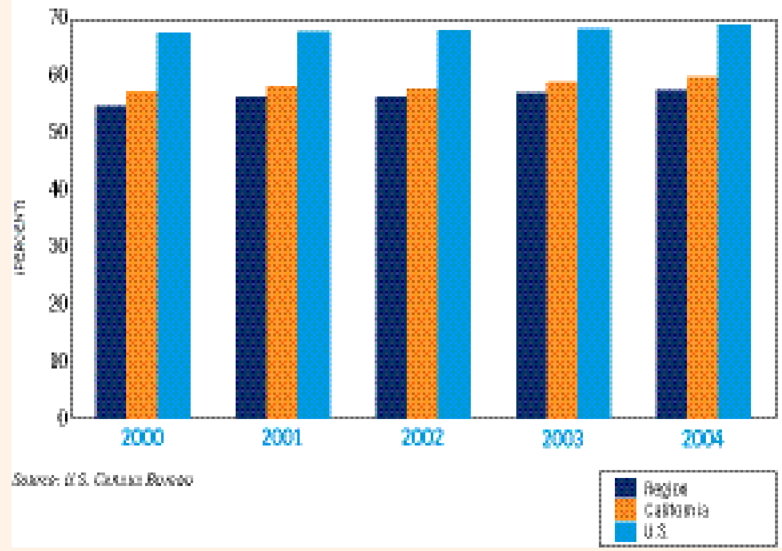
Owning one's home has long been considered an important part of the American Dream. The equity generated from homeownership represents almost 45 percent of total household wealth.[1] Higher homeownership rates also help to improve neighborhood stability.

How are we doing?

In 2004, homeownership rates increased slightly at the national, state and regional levels. Nationally, the homeownership rate increased slightly from 68.3 percent in 2003 to 69 percent in 2004. During the same period, homeownership in California increased from 58.9 percent to 59.7 percent while it increased from 56.9 percent to 57.4 percent in the SCAG region. Since 2000, homeownership in the region increased by almost 3 percent and the number of homeowner households rose by about 250,000 (Figure 35).

Figure 35

Homeownership Rates



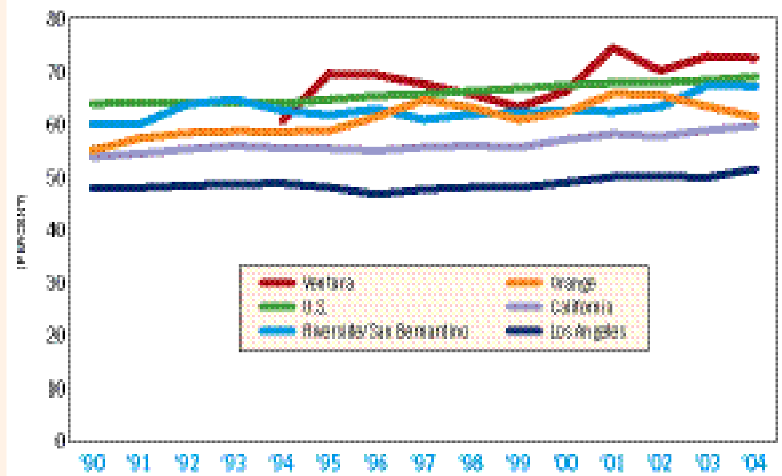
Source: U.S. Census Bureau

Within the region, Los Angeles County enjoyed notable increases in homeownership from 50 percent to 51.6 percent between 2003 and 2004. In contrast, homeownership rate in Orange County dropped from 63.4 percent to 61.4 percent, a third consecutive year of decline after reaching its peak at almost 66 percent in 2001. Slowdown in housing construction and relatively higher housing prices contributed to the decline in homeownership in Orange County.

In 2004, Ventura County's homeownership rate at about 72.5 percent remained the highest in the region, though with a slight decline (0.3 percent) from the previous year. It is also the only county in the region with a rate higher than the national average. Homeownership in Riverside/San Bernardino counties remained the second highest in the region, even though it declined slightly from 67.4 percent to 67.2 percent. At 51.6 percent, Los Angeles County continued to be the only county in the region with a homeownership rate lower than that of the state and the nation.

Figure 36

Homeownership Rates



Source: U.S. Census Bureau. Ventura County annual data started from 1994.
Imperial County's homeownership rate was 58 percent in both 1990 and 2000; other annual data unavailable.

Among the nine largest metropolitan regions in the nation, Detroit's homeownership rate at 73 percent in 2004 was higher than the national average.[2] Only two regions, New York and the SCAG region, had rates below 60 percent.

Housing Affordability

Why is this important?

Housing affordability provides an indication of the level of financial burden of housing expenses. Housing constitutes the largest share of household expenditures among all consumption items. When a household spends too much on housing, there is not enough left to meet other household needs, such as transportation, healthcare or education. Housing affordability also affects decisions as to where to live. Hence, housing affordability is an indicator reflecting the fundamental well-being of households. In addition, it influences business decisions to locate or expand in the region. Lack of affordable housing will result in a weakening of our region's attractiveness and competitiveness.

How are we doing?

Housing affordability can be measured by the share of households that can afford to purchase a median-priced house or by the share of household income spent on housing. *By both measures, housing affordability continued to decline throughout Southern California in 2004.*

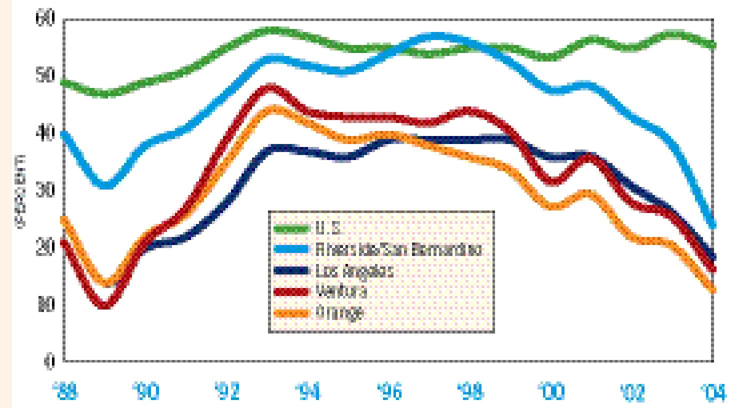
In the three coastal counties (Los Angeles, Orange and Ventura), the share of households able to afford a median-priced home dropped below 20 percent in 2004, the first time since 1989. Each of the three counties experienced a sharp decline of affordability between 7 and 9 percent in one year. In Los Angeles County, the affordability measure dropped from 26 percent in 2003 to 19 percent in 2004, after a 5-percent drop in the previous period. In Orange County, the affordability measure dropped from 21 percent in 2003 to only 13 percent in 2004.

The sharpest decline of affordability occurred in the traditionally more affordable Inland Empire where the share of households able to afford a median-priced home dropped 14 percent, from 38 percent in 2003 to only 24 percent in 2004 (Figure 37). *In 2004, every county had lower housing affordability than the national average and the gaps have continued to widen since 1997*. While close to 56 percent of the nation's households could afford a median-priced house in 2004, less than one-fifth of the region's households could achieve the same.

Figure 37

Housing Affordability

(Percent of Households Who Can Afford to Purchase a Median-Priced Home)



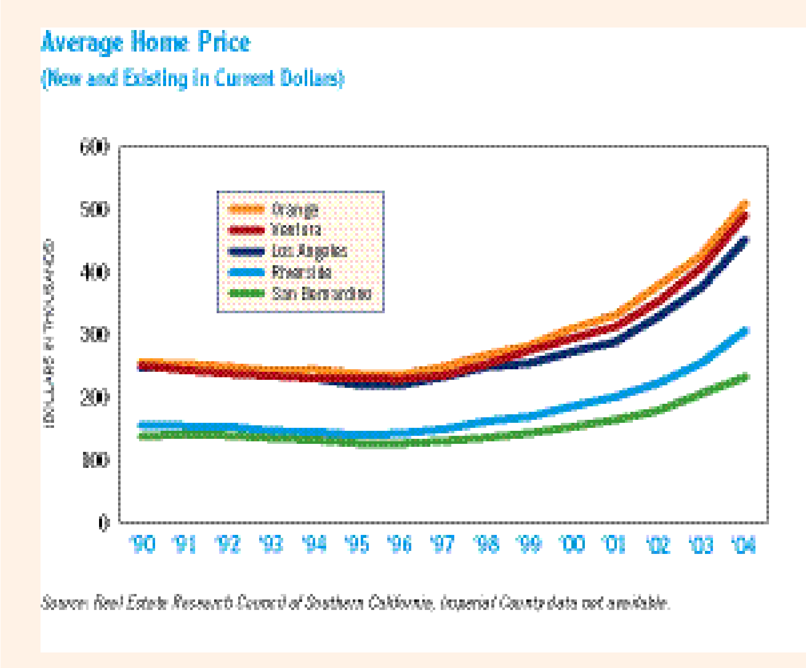
* Data for Imperial County is not available
Source: California Association of Realtors

Housing affordability is generally impacted by household income, home prices and mortgage interest rates. *During 2004, continuing sharp increases in home prices significantly outpaced the modest growth in household incomes and offset gains from lower interest rates, making housing less affordable.*

There has been a lack of growth in median household income in the region between 2000 and 2003. From 2003 to 2004, real median household income increased by 2.6 percent, the first gain since 2000, after a slight decline during the 1990s. In addition, real per capita income in the region also achieved its first gain since 2000, of approximately 2 percent.

However, average home prices in the region reached historic peaks in 2004 in almost every county (Figure 38). Since 1998, after recover-

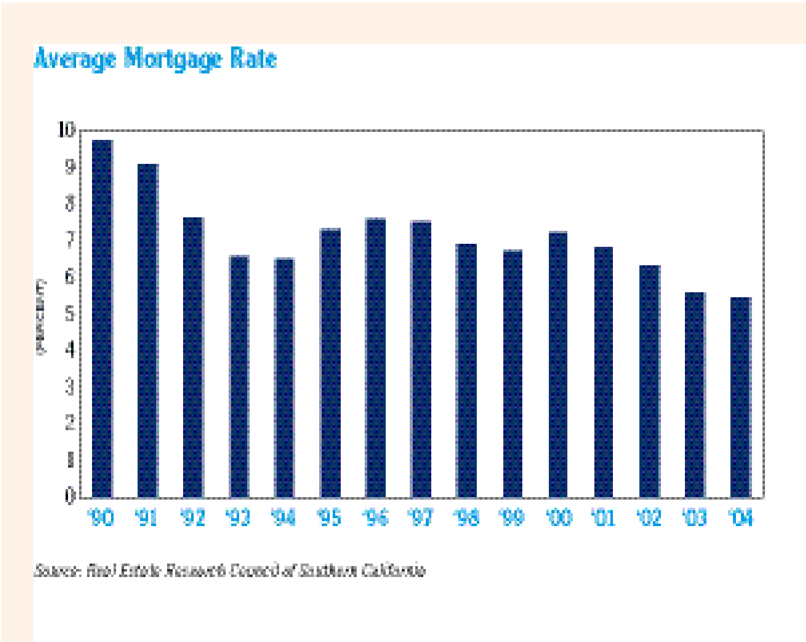
Figure 38



ing from the losses during the previous recession, average home prices had increased between 6 and 7 percent per year up to 2001. Between 2001 and 2004, partly because of lower mortgage interest rates and significant population growth, average home prices increased by about 55 percent in coastal counties and 47 percent in the Inland Empire. For example, the average price for new and existing homes in Orange County rose from \$330,000 in 2001 to \$510,000 in 2004, an increase of \$180,000 in just three years. During the same period, average home price increased from \$200,000 to \$310,000 in Riverside County. Between 2001 and 2004, home price in Imperial County also increased from about \$125,000 to \$170,000, up by 36 percent.[3]

The record high home prices were affected by several factors including low interest rates, wider availability and uses of non-traditional mortgage financing and the accumulation of unmet demand since the early 1990s. Working together, these factors have significantly widened the imbalance between housing demand and supply. In 2004, average mortgage interest rate at 5.5 percent was the lowest in the past 40 years (Figure 39).

Figure 39



Lower interest rates could allow for higher selling prices and still keep the same monthly mortgage payment amount. In addition, there are wider availability and uses of non-traditional mortgage financing in recent years. Many Southern Californians are relying on adjustable rate mortgages and interest-only mortgages instead of the traditional 30 year fixed rate mortgages. These nontraditional mortgages allow buyers to borrow more money than they could with traditional mortgages but pose potential risks when loan payments rise later. Statewide data indicated that interest-only loans increased from 2 percent of mortgages for homes bought in 2001 to almost half of mortgages for homes bought in 2004.[4] Finally, since the early 1990s, the region has been accumulating unmet demand for housing due to the lack of adequate level of housing construction relative to population growth (see Figure 33).

In 2004, over 45 percent of the region's owner households (with a mortgage) had monthly costs at or greater than 30 percent of household incomes, up from 40 percent in 2000 (Figure 40). Statewide data further indicated that 20 percent of recent California homeowners (those who have purchased a house within the last 2 years) spend more than half of their incomes on housing costs.[5] At the national level in 2004, only 33 percent of owner households had monthly costs at or greater than 30 percent of household incomes. *In 2004, the SCAG region continued to have the highest homeowner housing cost burden among the nine largest metropolitan regions in the nation.*

Between 2000 and 2004, average rents in the region increased generally between 2 to 4 percent per year after adjusting for inflation (Figure 41). In 2004, average monthly rents were about $1,350 in the coastal counties and just below $1,000 in the Inland Empire. With rent increases significantly exceeding household income growth, rental cost burden has continued to rise. *In 2004, among the approximately 2.4 million renter households in the region, more than 54 percent (1.3 million renter households) spent 30 percent or more of their incomes on rent, up from 49 percent in 2000* (Figure 42). Since 2000, rental cost burden has been increasing at the regional, state and national levels.

Figure 40

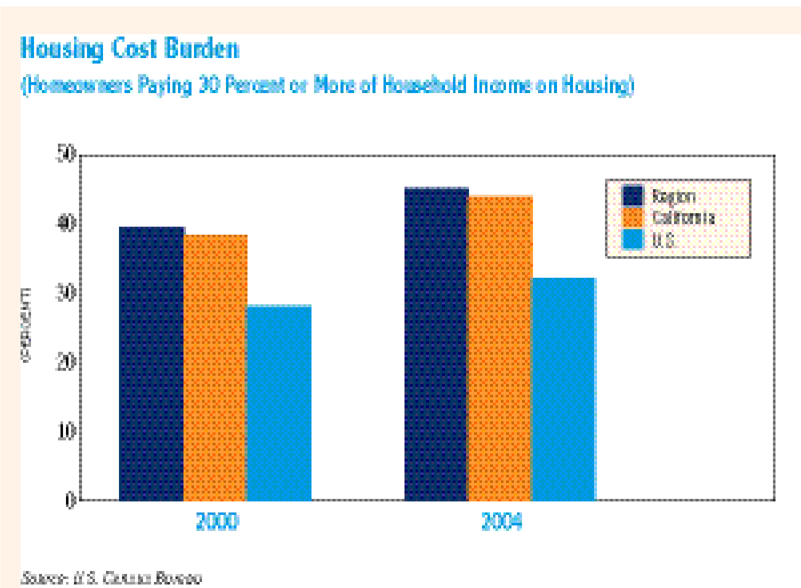


Figure 41

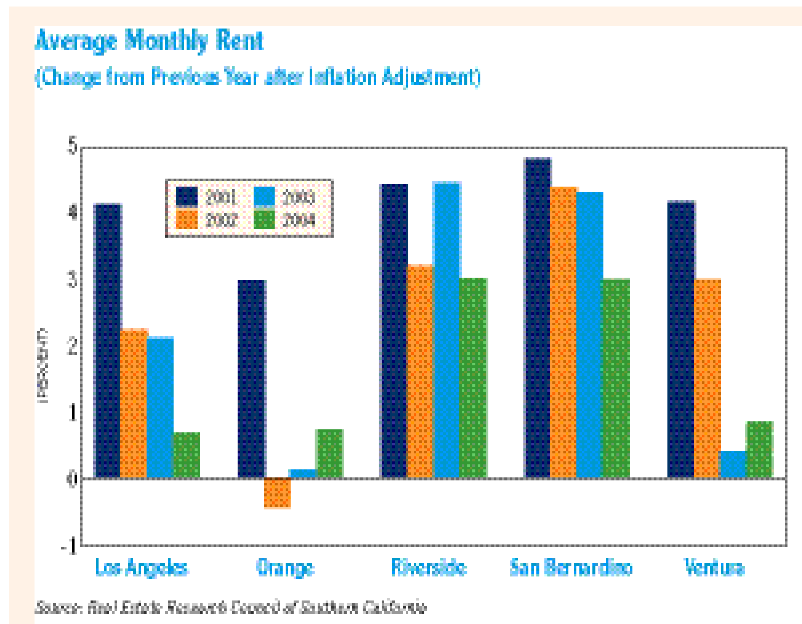
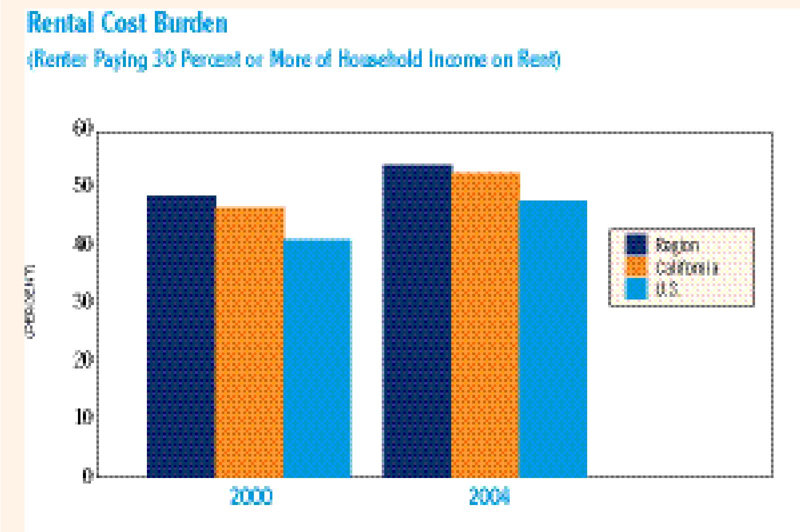


Figure 42



Source: U.S. Census Bureau

Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the highest percentage (54 percent) of rental households with monthly rent at or greater than 30 percent of household income. Following the SCAG region was the San Francisco Bay Area, with 50 percent of renters spending 30 percent or more of their incomes on rent. In addition, California had the highest median rent among all the states in 2004. Hence, rental housing is an important public policy issue at the regional as well as the state levels.

The extraordinary high housing cost burdens not only impact the well-being of residents but also discourage business decisions to locate or expand in the region. Lack of affordable housing remains a serious challenge to the region's long-term economic growth.

Housing Crowding

Why is this important?

Housing crowding measures the percent of housing units with more than one person per room, including all rooms except bathrooms. It provides an indication of housing shortages and housing affordability. Lack of affordable housing will lead to higher levels of housing crowding.

How are we doing?

In 2004, more than 11 percent of the occupied housing units were considered to be crowded, a 1.2 percent reduction from the previous year.[6] Between 2000 and 2004, the share of crowded housing in the SCAG region declined by 2.7 percent. Within the region, Los Angeles County continued to have the highest rate (12.7 percent). In 2004, Southern California continued to have the highest rate of crowded housing among the nine largest metropolitan regions.[7]